

# **Drivers of Transfer Decisions of Small Business Owners: Differentiating Between Intentions and Actions**

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## **Summary**

An important aspect of the entrepreneurial life cycle that has been largely neglected is the entrepreneurial exit. Previous literature has identified a broad range of variables that influence the transfer of larger firms. Both personal-, social-, business- and industry-related variables have been shown to impact the transfer of larger firms. Few studies, however, have examined these variables in the context of smaller firms. In this study, we study the impact of person and business related variables on exit decisions of small-business owners. We use insights from the theory of planned behavior in order to distinguish between factors rationally incorporated in the entrepreneur's intention to exit and factors directly impacting exit outcomes. Our hypotheses are tested on a unique, self-collected dataset on exit decisions by 196 small business owners. Our results indicate that human capital and intangible assets impact the intentions to exit. Further, company viability and intangible assets impact the actual realization of an exit. Implications for theory and practice are suggested.

**Keywords:** entrepreneurial exit, theory of planned behavior, human capital

## **1. Introduction**

All entrepreneurs eventually will exit their firm and hence every entrepreneur sooner or later will face a number of economic and psychological issues associated with firm exit. A number of scholars, therefore, have argued that entrepreneurial exit should be researched as an integral part of the entrepreneurial life cycle (Brockner et al., 2004; Cardon et al., 2005). DeTienne (2006) defines entrepreneurial exit as a strategic decision by founders of privately-held firms to harvest their equity interest and remove themselves from the primary ownership and decision-making structure of the firm. There are different routes by which the entrepreneur may exit. Entrepreneurs may be forced into bankruptcy or liquidation, they may successfully exit through the sale of the firm or an IPO, they may choose to transfer the firm to family members, or they "may die in the saddle" (Engel, 1999: ix). It is clear that some of

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these exit routes will create more personal and economic value for the entrepreneur than others.

Business exit is not only important from the perspective of the entrepreneur, it is also important from a macro-economic perspective. For example, Europe's population is ageing. According to estimates by the European Commission (2003) one third of EU entrepreneurs will exit their business within the next ten years. This could affect up to 690,000 small- and medium-sized enterprises and 2.8 million jobs every year. As such, the European Union has stimulated a number of local initiatives to stimulate business transfers to preserve this large amount of economic value. The percentage of firms that are successfully exited, therefore, serves as a major economic indicator for policy makers (Holmes and Schmitz, 1990). In sum, both from the perspective of the entrepreneur and from the perspective of policy makers, gaining a better understanding of entrepreneurial exit decisions is important to protect future personal and economic interests.

A variety of perspectives have been used to study firm exit: economics (e.g. Dunne, Roberts and Samuelson, 1988), strategic management (e.g. Gimeno, Folta, Cooper and Woo, 1997), finance (Zingales, 1998), organizational sociology (e.g. Carroll, 1984) and organizational psychology (e.g. Detienne, Shepherd and De Castro, 2004). Using a single theoretical perspective, most of these studies, however, have looked at the exit of larger firms and have used the firm or the industry as unit of analysis. Following DeTienne (2006) we propose a shift of analysis that examines exit decisions made by founders of privately held companies. This shift follows a call by entrepreneurship scholars to focus on the entrepreneur as a designer of the organization and to seek to understand his or her point of view (Sarasvathy, 2004). This focus on the entrepreneur has been largely neglected in previous exit literature.

In order to address some of the gaps in the current exit literature, we study exit outcomes in small businesses using a multidisciplinary approach. We explicitly take into account the entrepreneur's perspective. The first research question we address is how person (entrepreneurial orientation, psychological ownership, human capital) and business (viability of the firm, knowledge specificity, asset specificity) related variables are related to exit outcomes. The second research question we address is whether these variables impact exit outcomes indirectly by influencing the entrepreneur's intentions or directly by impacting action. We use insights from the theory of planned behavior (TPB) (Ajzen, 1991) in order to make this distinction. Borrowed from social-cognitive psychology literature, TPB is a widely adopted tool for academics to explain and predict a wide variety of behaviors across a variety

of settings including entrepreneurship (Armitage and Conner, 2001). TPB is used to focus on intentional strategies entrepreneurs have to transfer their firm. Combining person- and business related variables with insights from TBP, we can distinguish between factors rationally incorporated in the entrepreneur's decision process and factors directly impacting exit outcomes without conscious deliberation of the entrepreneur. This is important as it helps to reveal cognitive blind spots in the entrepreneur's decision making process with respect to transfer decisions.

The empirical setting employed in this study considers exit decisions by small business owners in the region of Flanders and Brussels. An explorative questionnaire was developed and distributed among small-business owners that experienced an exit over the period 2000 to 2006. As such, a unique hand-collected dataset was collected that covers exit decisions of 196 small-business owners. Different types of multivariate analyses are used to test the hypotheses

The rest of this paper is organized as follows. First, we present a review of the theory and derive hypotheses. Second, we outline the research setting of our study, the data and method used in the analyses. Third, we present the results from the empirical analyses. Finally, we discuss our findings, conclude and outline potential avenues for future research.

## **2. Theory and hypotheses**

### *2.1 Overview previous literature*

Business exit has received substantial attention from a wide range of perspectives: economics (e.g. Dunne, Roberts and Samuelson, 1988), strategic management (e.g. Gimeno, Folta, Cooper and Woo, 1997), finance (Zingales, 1998), organizational sociology (e.g. Carroll, 1984) and organizational psychology (e.g. Detienne, Shepherd and De Castro, 2004). For example, Zingales (1998) studied the impact that capital market imperfections have on the natural selection of the most efficient firms by estimating the effect of leverage on the survival of trucking firms after the Carter deregulation. Combining insights from organizational ecology and institutional theory, Baum and Oliver (1991) examined the impact of institutional linkages on the failure of child care service organizations. The family business literature has also provided a whole stream of research looking at business transfer and succession within family firms (Le Breton-Miller, Miller and Steier, 2004).

Notwithstanding the considerable stream of research into organizational exit, previous research on business exits has mainly (1) focused on the exit of larger firms (2) focused on

the firm or the industry as unit of analysis and (3) studied organizational exit using a single theoretic perspective. We discuss each in turn.

First, a considerable amount of research exists on the topic of organizational exit (Anderson and Tushman, 2001). These studies, however, have mainly focused on larger firms. A number of authors have recently started to focus on entrepreneurial exit, employing samples of small- and medium sized enterprises (DeTienne and Cardon, 2005; Detienne, Shepherd and De Castro, 2004). For micro-businesses<sup>2</sup>, however, there still remains a lack of research on exits. Research available for this subgroup are mostly self-employment studies (e.g. Lin et al., 2000). To our knowledge, however, no authors have focused on exit-outcomes in a micro-business context. In contrast, a whole range of practitioners' literature focuses on the importance of exit planning for this subgroup (e.g. Advisor Today).

Second, previous research has mainly focused on the firm or the industry as unit of analysis when studying exit decisions. For example, using data on the newspaper industry, Carroll and Hannan (1989) use the numbers of organisations in an industry to explain commonly observed patterns in the growth and decline of industries. When studying exit decisions in small firms, however, important questions as why, when and how entrepreneurs make a decision to exit from their firm, are unlikely to be resolved by focusing on the firm or the industry as unit of analysis. Entrepreneurship scholars, therefore, focus upon the entrepreneur as a designer of the organization and seek to understand his or her point of view (Sarasvathy, 2004). Entrepreneurial exit can be defined as a strategic decision by founders of privately-held firms to harvest their equity interest and remove themselves from the primary ownership and decision-making structure of the firm (DeTienne et al., 2006). Entrepreneurial exit is mainly concerned with the individual decisions of the owners or founders of the firm and is primarily focused upon aspects of the exit decision (whether or not to exit, whether or not to transfer or sell the business, ...). A focus on the entrepreneur is especially relevant for the transfer literature where the perspective of the seller is both "crucial and poorly understood" (Greabner and Eisenhardt, 2004: 367). Using upper echelon theory, Detienne and Cardon (2007) focus on the human capital of the individual entrepreneur when studying exit decisions.

Third, researchers in diverse fields as economics, finance, entrepreneurship, strategic management, organizational psychology and sociology have explored the topic of business

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<sup>2</sup> The European Commission (2003) defines small- and medium sized enterprises as having respectively less than 50 and 250 employees. The largest number of firms however are labeled as micro-businesses and have less than 10 employees: The European Commission estimates these firms up to 86% of all businesses.

exit. However, no systematic picture emerged across these disciplines (Kesner and Sebor, 1994). Each discipline views business exit from its unique vantage point often implying different levels of individual, firm, industry or market levels of analyses. Kesner and Sebor (1994:363) suggest that “it is time to step back, away from the individual pieces and assess the whole picture”.

In order to fill some of the gaps in the current literature on business exits, this paper will study exit decisions of micro-business owners using an multidisciplinary perspective. An interesting framework to study entrepreneurial exit decisions is the domain of entrepreneurial cognition research (Mitchell et al., 2004). Entrepreneurial cognition is a distinct domain within the entrepreneurship literature and it integrates both entrepreneurial and cognitive psychology literature in studying the way individual entrepreneurs think (Mitchell et al., 2007). Within this framework, this paper researches the decision to transfer by applying the theory of planned behavior (TPB - Azjen, 1991) to business transfers. TPB describes processes by which attitudes and beliefs determine behavior, business transfers in our setting. We therefore expand TPB with person- and business related variables that have previously been identified as impacting transfer decisions. TPB is open to the inclusion of additional predictors if it can be shown that they capture a significant proportion of the variance in intention or behavior after the theory’s current variables have been taken into account (Azjen, 1991:199).

By expanding TPB with other factors that impact transfer decisions, we can analyze those factors that directly impact transfer outcomes and those factors that indirectly impact transfer outcomes by influencing entrepreneurial intentions with respect to business transfer. Hereby we can distinguish between factors rationally incorporated in the entrepreneur’s decision process and factors directly impacting exit outcomes without conscious deliberation of the entrepreneur. This will provide us with insights on cognitive blind spots in the entrepreneur’s decision making process with respect to transfer decisions.

To summarize, this study addresses two specific research questions: (1) To what extent can TPB be expanded with person- and business related variables previously identified in entrepreneurial exit literature to explain micro-business transfers (2) Do person- and business related variables impact transfer outcomes by influencing entrepreneurial intentions or by directly impacting entrepreneurial action? Below we introduce TPB and develop our hypotheses.

## *2.2 Theory of planned behavior*

TPB is a widely adopted model to explain and predict a wide variety of behaviors across a variety of settings including entrepreneurship (Armitage and Conner, 2001). Grounded in social cognitive psychology literature, this theory was developed to model direct conscious and deliberative decision making based on careful consideration of available information. The model's central assumption is that intentions toward a certain act serve as a behavioral plan that mediate between the attitudes of the person and the actual behavior. In other words, whenever individuals form intentions based on their personal attitudes and subsequently translate these intentions into action, they are engaging in direct conscious and deliberative decision making. This attitude-intention-behavior linkage is particularly applicable when the behavior under scrutiny is rare, hard to observe, or involves unpredictable time lags (Norris and Krueger, 2000). The exit of a firm is a good example of such a behavior. For most entrepreneurs it happens only once and even though several factors might delay or postpone the actual exit, it will sooner or later be executed. Previous research has shown that TPB is a useful framework to study exit decisions (Leroy, Meuleman and Manigart, 2007).

According to TBP (see Figure 1) the most important driver of a behavior is a behavioral intention, which, in turn, is determined by attitudes, subjective norms and perceived behavioral control toward that particular behavior. For business transfers, this means that (a) a business owner's personal evaluation of the desirability of transferring (attitude), (b) a business owner's perception of the importance of a transfer toward relevant others (subjective norm) and (c) a business owner's belief that (s)he controls the actual decision to transfer (perceived behavioral control) will determine whether a business owner has the intention to transfer. Both attitude and subjective norms are composed of wider set of respectively (a) evaluations of consequences of a transfer and (b) evaluation of the importance of a transfer to different personal referents. The perceived behavioral control construct is represented by self-efficacy on the one hand (the owners' beliefs that they are capable of transferring their firm) and perceived control on the other hand (the owners' belief the transfer is up to them rather than external uncontrollable factors). Note that TPB assumes a direct and indirect link between perceived behavioral control and the transfer behavior.

Insert Figure 1 about here

## *2.3 Intention to exit and the entrepreneurial exit literature*

Following Le Breton-Miller, Miller and Steier (2004), we recognize that business transfer decisions and business transfer outcomes are impacted by the context in which they take place. With respect to the context of the business transfer, we differentiate between variables at the personal and business level. We explore how these variables impact business transfer outcomes and whether their effect is mediated through behavioural intentions. Differentiating between these effects will not only deepen our understanding of *which* factors but also *how* these factors impact the actual transfer.

*Person variables.* In their review of succession literature, Le Breton-Miller, Miller and Steier (2004) suggest that several characteristics of the incumbent influence the process of business transfer. We consider three variables: psychological ownership, entrepreneurial orientation and the human capital of the entrepreneur.

Miller, Steier and Le Breton-Miller (2003) describe soft factors impacting intergenerational succession, change and failure. For many business owners overcoming anxiety about succession requires moving beyond the denial stage and being willing to confront succession and let go. Entrepreneurs must face normal fears such as losing control, power and even part of their identity and stature in the community (Potts, 2001). Sharma (2003) confirms that the predecessor's inability to let go is the single most cited obstacle to effective succession. When exiting a firm, the entrepreneur does not only remove itself from primary legal or financial ownership but psychological ownership as well. In organizational behavior literature, psychological ownership (PO) is defined as "the state in which an individual feels that an object (i.e. material or immaterial) is experienced possessively" (Pierce et al., 2001). Pierce et al. (2003) hypothesize that PO emerges when (1) the owner controls the target, (2) comes to intimately know the target and (3) has invested in the target, conditions highly applicable to small business owners. We expect, therefore, that for higher levels of PO, business transfer will be hampered as entrepreneurs will experience difficulties in letting go their companies. Hence:

H1: The higher the level of psychological ownership, the less likely an exit strategy will be realized.

One of the central concepts in TPB is self-efficacy. Self-efficacy denotes the extent to which a person believes to be capable of performing a specific behavior. As self-efficacy is behavior-specific, in the context of entrepreneurial ventures, 'entrepreneurial' self-efficacy

has become a central element in explaining the opportunity identification process typical for entrepreneurs. For instance, Chen, Greene and Crick (1998) found that entrepreneurial self-efficacy distinguishes managers from entrepreneurs, especially in their orientation toward risk-taking and innovation. We chose to include entrepreneurial orientation (EO) to account for these entrepreneurial characteristics. EO refers to a firm's strategic orientation, capturing specific entrepreneurial aspects of decision-making styles, methods, and practices (Lumpkin and Dess, 1996). Miller (1983:771) summarizes the characteristics of an entrepreneurial firm: "An entrepreneurial firm is one that engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with "proactive" innovations, beating competitors to the punch". EO encompasses most of these factors, has a solid research base (Covin and Slevin, 2006) and has been successfully applied to a setting of small business owners (Kraus et al., 2005).

Entrepreneurially oriented firms should more actively seek for exit routes. Entrepreneurially oriented firms monitor market changes and respond quickly, thus capitalizing on emerging opportunities. We expect, therefore, that entrepreneurially oriented managers will proactively seek out exit opportunities by scanning the environment. Further, entrepreneurially oriented firms should be more attractive as takeover target. After all, innovation keeps them ahead of their competitors, gaining a competitive advantage that leads to improved financial results. Studies have found that those businesses that adopt a more entrepreneurial strategic orientation perform better (e.g., Wiklund and Shepherd, 2005; Zahra and Covin, 1995).

In general, firms with a high level of entrepreneurial orientation will seek out exit opportunities proactively and will be more attractive as takeover target. Hence:

H2: The higher the entrepreneurial orientation OF THE INDIVIDUAL, the more likely an exit strategy will be realized.

Previous research has shown that intentions may be impacted by human capital characteristics such as education (Kolvereid and Moen, 1997), prior entrepreneurial experience (Krueger, 1993) and career anchors (Lee and Wong, 2004). Human capital variables have been linked to different stages in the entrepreneurial process. For example, as higher levels of human capital are associated with a higher ability to perceive and exploit opportunities, Davidsson and Honig (2003) show that human capital variables such as education and business experience predict nascent entrepreneurship activities.



In the context of business transfer, we expect that higher levels of human capital should increase the likelihood of successfully realizing an exit. Human capital theory maintains that knowledge provides individuals with increases in their cognitive abilities, leading to more productive and efficient potential activity (Schultz, 1959; Becker, 1964; Mincer, 1974). Therefore, if profitable opportunities exist, individuals with more or higher quality human capital should be better at perceiving them. Once engaged in the entrepreneurial process, such individuals should also have superior ability in successfully exploiting opportunities such as seeking a profitable exit. Further, higher levels of human capital will increase an entrepreneur's ability to deal with the complexity of different exit options. DeTienne and Cardon (2005) examine the impact of human capital variables on the intention and decision to exit. They found that entrepreneurial experience, age, level of education, area of educational study and industry experience relate to the specific exit strategy chosen. These authors concluded that both general and specific entrepreneurial capital impacted the choice of exit strategy. Other authors have related the impact of human capital to firm dissolution. Pennings, Lee and Witteloostuijn (1996) found that human capital strongly predicted the dissolution of the firm and the effects depended on their specificity and non-appropriability.

In general, as higher levels of human capital increase the cognitive abilities of entrepreneurs to deal with the exit process, we expect that:

H3: The higher the level of human capital, the more likely a transfer strategy will be realized.

*Business variables.* We examine two specific variables at the business level that are likely to be related with transfer outcomes: viability of the firm and the importance of intangible assets. First, the viability of the firm plays an important role in the transfer outcome. Butler, Saxberg and Lee (2003) identified historical performance as having an important impact on different transfer outcomes. Firms with a good track record of performance will be more attractive as takeover targets as they have a proved business concept that should be valuable to others. Increased financial incentives should increase the desirability of an entrepreneur to plan and prepare an exit. Therefore, it is more likely that an exit strategy will be realized. Hence:

H4: The higher the performance of the firm, the more likely a transfer strategy will be realized.

Second, we include the importance of intangible assets for the operations of the firm. Intangible assets such as know-how, expertise and product knowledge often involve a substantial element of tacit knowledge. In the knowledge-based literature, factors associated with tacitness include non-codifiability, non-teachability and complexity (Kogut and Zander, 1993; Zander and Kogut, 1995). Tacitness, it turns out, renders knowledge both particularly promising and problematic for business transfer. The upside of tacit knowledge is that non-codifiability serves as a shield against unintended imitation by rivals. Tacit knowledge is better protected because its properties in use are harder to assess from the outside (Nelson and Winter, 1982; Grant, 1996). Thus, all else equal, knowledge that is more tacit possesses stronger potential to generate distinctive competitive positions. A business, therefore, might be more attractive as takeover target. While tacitness protects against unwanted imitation, it also has the disadvantage of transferring it successfully to a potential successor. For example, in the context of family businesses, Bjuggren and Sund (2002) note that family idiosyncratic knowledge is a major factor that might prevent selling a firm outside the family. Intangible assets, therefore, might impact business transfer decisions and outcomes. Given the type of intangible assets possessed by small businesses, we expect that the issue of transferability will be more problematic thereby hampering potential exit routes. Hence:

H5: The higher the level of intangible assets, the less likely a transfer strategy will be realized.

To summarize, at the person level, we examine the impact of PO, human capital and entrepreneurial orientation on exit outcomes. Further, at the business level, we study the relation between firm viability and the importance of intangible assets on the one hand and the outcome of an exit on the other. An important question that has been raised is whether these variables directly impact exit outcomes or indirectly influence the entrepreneur's intention to exit. In order to make this distinction, we will explicitly explore whether these variables have an impact on the attitudes, subjective norm and perceived behavioral control toward a business exit. If those variables are not related to attitudes, subjective norm and perceived behavioral control but directly impact the exit outcome, we have identified factors rationally incorporated in the entrepreneur's intention to exit and factors directly impacting exit outcomes without conscious deliberation.

### **3. Method**

#### *3.1 Empirical setting and data collection*

The empirical setting employed in this study considers exit decisions by small business owners in the region of Flanders and Brussels. The Belgian government provided us with contact data on 166493 **companies** who terminated their VAT-number in the period 2000 to 2006. This entails the entire population of **individuals** who recently exited their business activity. We identified micro-businesses through database matching in Belfirst, a statistical database providing general company information of the entire population of Belgian companies. Furthermore, we limited our sample to individuals and companies in Flanders and to those activities that showed a reasonable percentage of exits in recent years<sup>3</sup>. We randomly drew 3706 respondents from this target population, eliminating 3056 respondents due to incorrect addresses, duplicates and disconnected phone numbers. This high percentage of missing data is due to the fact that contact data is related to the exited business, rather than to the individuals. We contacted the remaining 650 business owners by telephone and asked to participate in our research via internet or hard copy. A number of contacted individuals were unable to participate due to sickness, old age or language barriers, reducing the initial sample to 447 potential respondents. Of these, 112 respondents completed the survey within the first 2 weeks after administration. After a follow-up, an additional 84 respondents raised the

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<sup>3</sup> We eliminated activities with less than one percent of the total number of exits and retained: agriculture, construction, retail, car repair, hotels and restaurants, real property, rental/services to companies and manufacturing, transport, storage and communication.

response rate to a total of 196 (30 %). A small number of respondents failed to complete the entire survey. When deleting cases list wise, the N reported in the result-section never drops below 172. We tested whether the actual sample represented the overall population for distribution of activities, legal form and region. Our tests indicated that the sample has slightly more firms in the agricultural sector and slightly less firms in the region of Brussels, but were otherwise comparable to the target population.

### 3.2 Variables

Given the exploratory nature of our study, most of the questionnaire items were adopted from existing scales and adapted to our setting. Pre-tests of the survey instrument with ten micro-business owners indicated that most scales needed simplification. Most items are scaled on a five-point-labeled Likert-scale (1 = completely disagree, 5 = completely agree). In the next paragraphs, we discuss the different variables reporting Cronbach alpha's and factor loadings where appropriate. We start with the constructs central in the theory of planned behavior. Next we discuss person- and business related variables to complement constructs in TPB. Finally we discuss the control variables included in our research.

*Theory of Planned Behavior.* Most of the scales presented were adopted from Krueger, Reilly and Carsud (2000) who adapted TPB to an entrepreneurial context. The first dependent variable measures the intention to transfer with a self-perception on the 'consideration, preparation and likelihood' of a transfer occurring ( $\alpha = 0.910$ ). Furthermore, we asked about the exit outcome, differentiating between four exit options<sup>4</sup>: transfer to family member (15.9%), transfer to third party (18.5%), voluntary liquidation (62.6%) and involuntary bankruptcy (3.1%). In addition, we asked whether the business activity continued under new ownership (yes = 34.4%). This question matched the differentiation between the first and last two exit options, validating our second dependent variable.

As independent variables, TPB proposes three global measures: attitude (personal desirability), subjective norms (general desirability others) and perceived behavioral control. Three scales measure attitudinal specifications of these variables. Attitude was represented with three items measuring the "attraction, tension and enthusiasm" toward the thought of transferring (personal desirability,  $\alpha = 0.587$ ). When deleting the second item of the attitude scale, the  $\alpha$ -value increased to 0.824. The item measures feelings of tension toward the

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<sup>4</sup> We base this differentiation on the exit strategies of Birley and Westhead (1993) and Petty (1997). Because of our target population (less than 10 employees) IPO, transfer to employee (one person business), transfer to management were not considered as options. Within the liquidation option we differentiated between voluntary and involuntary exit (Headd, 2003).

thought of transferring. The negative wording of the item as well as the differing context for which the item was originally used (entrepreneurial career choice) might explain its impact and justify its deletion. Because of the difficulties with the subjective norms-scale in previous research, we opted to use the measure of Kolvereid and Isaksen (2006) specifying the attractiveness of transfer to close family, friends and other people significant to the business owner (general desirability others,  $\alpha = 0.902$ ). For similar reasons, we specified perceived behavioral control with the scale used by Kraft, Rise, Sutton and Røysamb (2005). This scale is composed of seven items measuring confidence (3 items, for instance “I was convinced I could transfer my firm if I tried”), perceived control (2 items, for instance “I had control over the decision to transfer”) and internal locus of control (2 items, for instance “Deciding to transfer was my decision”). Two subscale were composed out of these items: self-efficacy and perceived control (cfr. supra). On the one hand self-efficacy was represented by the confidence items ( $\alpha = 0.867$ ) and on the other hand perceived control was represented by perceived control and locus of control items ( $\alpha = 0.890$ ). Exploratory factor analysis identified all four proposed measures (self-efficacy, perceived control, subjective norms and attitudes, eigenvalue  $> 1$ ) and explained up to 80 % of the data. After oblique rotation, all items loaded on their expected factor.

*Person variables.* Human capital was measured with variables identified in the research of Colombo and Grilli (2005) and Dimov and Shepherd (2005). We adopted 5 items measuring specific human capital variables<sup>5</sup>; one is categorical and four were open-ended, continuous variables. The categorical items asked if the respondent acquired technical experience (yes = 57,4 %). The four open-ended questions asked about the number of years experience in sales (M=14.8 and SD=19,5), management (M=10.0 and SD=13.7), entrepreneurship (M=14.8 and SD=19,5) and sector (M=20.0 and SD=16,6). These variables proved to be highly interrelated ( $\alpha = 0.816$ ) and are aggregated under the heading of entrepreneurial experience. Psychological ownership (PO) was borrowed from Van Dyne and Pierce (2004). The five items of this attitudinal scale measure commitment toward the organization using possessive vocabulary (‘MY organization, the organization belongs to ME’). Similar to previous research (Pierce et al., 2001 and Pierce et al., 2003), we found a high  $\alpha$ -value of 0.947. Entrepreneurial orientation (EO) was measured with the widely adopted scale of Covin and Slevin (1989). Nine items measure the strategic posture of the entrepreneur toward respectively innovation, pro-activeness and risk-taking. Previous

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<sup>5</sup> The general human capital variables were inserted as control variables and discussed in that subsection.

research indicated that a single factor best represents the data and this combined measure produced an alpha value of 0.780.

*Business variables.* The importance of intangible assets was measured by using seven items that capture the importance of 'know-how, expertise, product knowledge, customer relationships and brand familiarity' in the success of the firm. Two items ('patents and exclusive contracts') appeared to be less relevant in the context of small business firms and were excluded from further analysis. Alpha for this scale equals 0.877. Viability measures the evolution and actualization of most recent (to three years before actual exit) revenues of the firm and showed a satisfactory alpha of 0.758.

*Control variables.* Several variables were included to control for non-specific effects. The following variables were identified in previous exit literature (DeTienne and Cardon, 2005, Marshall et al, 2006 and Butler, Saxberg and Lee, 2003): age (M = 53.7 and SD = 13.4) size of the firm (number of employees, M=1.2 and SD = 1.62), and generation of the firm (M=0.9 and SD=0.4).

#### **4. Results**

We conduct two separate analyses. The first analysis is multivariate and explores the extent to which our four attitudinal specifications (attitude, subjective norm, self-efficacy and perceived control) can be explained by personal- and business related variables. In the second analysis, hierarchical logistic regression explores how these variables are related to the actual transfer outcome when controlling for attitude, subjective norm, self-efficacy and perceived control.

Table 1 depicts the correlation coefficients between all measures involved in our models. Cronbach alpha values are depicted on the diagonal. The correlation coefficients indicate that feasibility and self-efficacy are strongly correlated with intention. Perceived control has the smallest correlation with intentions. Intentions are strongly related to the actual transfer. A few unexpected significant correlations were found. For instance, psychological ownership shows a significant positive correlation with experience as an entrepreneur and experience in the sector.

Insert Table 1 about here

Due to high correlations between attitude, subjective norms, self-efficacy and perceived control, a multivariate analysis was conducted, relating person- and business related variables

to our four attitudinal specifications (see Table 2). These multivariate results give an indication to what extent these variables influence the attitudinal specifications. Only three variables significantly predict these variables: entrepreneurial experience, entrepreneurial orientation and the importance of intangible assets. When interpreting the results in Table 2a, 2b and 2c we observe that experience as an entrepreneur is positively related to self-efficacy. Entrepreneurial orientation is related to subjective norms and attitude. The importance of intangible assets is negatively related to self-efficacy and subjective norms, or entrepreneurial experience and EO, and negative for the importance of intangible assets.

Insert Table 2 about here

A hierarchical logistic regression was conducted with actual transfer as dependent variable (see Table 3). As shown in Figure 1, the effect of attitude, subjective norm, self-efficacy and perceived control on action is mediated by intention. We, therefore, only include intention in the regression analyses. As TPB also models a direct effect of self-efficacy and perceived control on action, we include their direct effects in the analyses. We add person- and business related variables to test their direct effect on the occurrence of a transfer. Control variables are added.

In the first step, we include person- and business related variables together with the control variables.. This model is highly significant. None of the person related variables is significant. Company viability has a significantly positive effect on the occurrence of an exit as predicted in hypothesis 4. Intangible assets have a negative effect on the realization of an exit as predicted in hypothesis 5.

In a second step, we add intentions, self-efficacy and perceived control. Compared to the previous model, the log likelihood decreases significantly. Both intention and self-efficacy have a significantly positive impact on the realized exit lending support to TPB. When comparing Table 2 and Table 3, we observe that entrepreneurial experience and entrepreneurial orientation have an impact on intentions by affecting one or more of the attitudinal specifications. These variables, however, have no direct impact on the actual transfer. Further, whereas company viability was not related to one of the attitudinal specifications, it does have a direct impact on the realized exit outcome. Lastly, the extent of intangible assets has an impact on the realized exit both by impacting intentions and by directly impacting the realized exit.

## **5. Conclusion and discussion**

Ultimately all entrepreneurs are confronted with the exit of their business. When considering the personal and economic wealth to be gained from a transfer, the study of their exit process, in particular comparing transfers with liquidations, is of importance to entrepreneurs, policy makers and academics alike. Contemporary literature has (1) mainly focused on larger companies (2) used the firm or industry as unit of analysis and (3) looked at exits without combining different theoretical perspectives. In an attempt to address gaps in the current literature, we study the exit process of micro-business owners from the viewpoint of the entrepreneur using an interdisciplinary perspective. More specifically, we study how TPB can be applied to transfer decisions and extended with person- and business related variables to explain transfer outcomes.

Using a survey-based research design, we collected data from 196 randomly drawn micro-business owners who exited their firm in the past 5 years in the region of Flanders or Brussels. In the first part of the analyses, we explored which person- and business related variables affect the intention to transfer a business. Using insights derived from TPB, previous research has shown that intentions are an important predictor of exit outcomes in small-business firms (Leroy, Manigart and Meuleman, 2006). At the person level, the results indicate that entrepreneurial experience and entrepreneurial orientation have a positive impact on the intentions to transfer a business. Further at the business level, the more important intangible assets are for the firm, the lower the intention to transfer a business. In the second part of the analyses, we examined the direct impact of intention, self-efficacy, perceived control, person- and business related variables on the realization of a transfer. In general, our analyses indicate that intentions, self-efficacy, viability of the firm have a strong positive impact on the probability to transfer, while the importance of intangible assets is negatively related to transfers. Surprisingly, whereas entrepreneurial orientation and entrepreneurial experience have an impact on the intention to transfer a business, they do not have a direct impact on the realization of an exit. Further, the importance of intangible assets did have a significantly negative impact on the exit outcome in line with hypothesis 4. The strong direct effect of intangible assets on transfer outcomes suggests that business owners underestimate or at least do not rationally/fully account for the impact of intangible assets on exit outcomes. Further, whereas company viability does not have a direct impact on the intention to exit, it does have a strong positive effect on the realized exit in line with hypothesis 5. This shows



that business owners are not fully aware of the importance of having a viable firm in order to realize an exit.

These results extend previous exit literature in several ways. First, previous literature studied the decision to exit (Butler, Saxberg and Lee, 2003) or exit strategies (DeTienne and Cardon, 2005) separately. In this study, we show the importance of making a distinction between transfer intentions and transfer outcomes. Our results indicate that combining TPB with insights from other literature such as human capital theory provides a more comprehensive framework in order to understand transfer behavior. Second, in addition to proving the added value of TPB to exit decisions, we linked central concepts in the entrepreneurial exit literature to the various elements in the TPB framework. This interdisciplinary approach identifies links between cognitions and other latent personal- and business related characteristics. As such, we were able to highlight some cognitive blind spots in the decision making process of entrepreneurs with respect to exit decisions. For example, entrepreneurs are not fully aware that intangible assets and business viability may hamper the successful transfer of a business.

This study has several practical implications. First, the results give an indication what variables influence the decision to transfer and in what way. As such, these results have direct implications for policy makers as well as for the entrepreneur exiting his or her firm. The results indicate that transferring a firm is an intentional process of thought preceding action. More in detail, it indicates that attitudes and self-efficacy account for a large percentage in the intention and subsequently the decision to transfer. The idea that transfers are intentional offers an opportunity to influence these intentions. For example, increasing perceptions of self-efficacy is perhaps one of the most important levers for policy makers. Setting up specific programmes that communicate guidelines about transferring a firm successfully might increase an entrepreneur's level of self-efficacy. Further, learning from more experienced entrepreneurs might increase intentions and abilities to transfer. Second, the results indicate that some variables such as company viability have a direct impact on transfer outcomes without influencing intentions. These variables can be interpreted as cognitive blind spots in the entrepreneur's decision making process. The entrepreneurs do not incorporate these in their intentional behavior. For example, sensitizing an entrepreneur to the impact of viability on successfully transferring a firm might increase intentions translating into more successful (trans)actions.

The major drawback of this study is its retrospective research design. Kim and Hunter (1993) state that in studying the TPB, it is better to sample before the action and use

longitudinal data to test the results. This shortcoming might have impacted the results in the following way: measuring intentions after exit could be influenced by the actual outcome. Retrospective reasoning may enhance the actual results: intentions are reported in response to the realized exit outcome. We have three specific reasons, however, to believe that this bias does not undermine the value of our results. First, all the relationships for TPB in this study were in line with previous literature. Second, we controlled for the impact of retrospective reasoning in the administration of the survey. We didn't find any significant effect of order of presentation on the intention-related variables. Third, we would like to stress that a retrospective research design is a practical limitation to the objective of our research. Identifying business owners who intend to exit is difficult, as an exit usually takes several years to complete. Further, it is a rare event: only 7% of all businesses are exited in Flanders and Brussels in any given year (Leroy et al., 2007). A limited focus on for instance old entrepreneurs or underperforming firms would have seriously limited the generalization of our results. In contrast, in our design we were able to randomly draw a sample from the target population providing an adequate representation of the entire population of business exits.

This study suggests some avenues for future research. First, the most obvious direction for future research is reconfirming these results for a larger sample in a different context (for instance culture) with advanced statistical techniques (for instance structural equation modeling) using longitudinal data. Second, in analyses not reported here, we noticed that no additional variance was explained in adding a measure of exit planning consistent with the theory of planned behavior. A similar approach could research the impact of implementation intentions. Gollwitzer's (1999) theory studies implementation intentions as self-regulatory strategies that aim to drive a goal-oriented behavior. According to the theory, a goal-driven behaviour automatically activates a set of goal-enabling (implementation) intentions that help realize the behaviour (Sheeran and Orbell 1999). Future research could explore how these implementation-intentions relate to transfer decision and indicate if they provide additional explained variance in the performance of a transfer. Third, much of previous transfer literature has researched the satisfaction with the transfer (e.g. Morris et al., 1997). The dual stage model described in this study, could be expanded to a three-stage process-model including satisfaction. Research questions for such a study should investigate whether the intention-action path increases feelings of volition and subsequently satisfaction.

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## 6. Figures and tables

Table 1: Mean, SD, N and correlations.

		M	SD	N	1	2	3	4	5	6	7	8	9	10	11	12
1	Tranfer (1= yes)	0,34	0,48	195												
2	Intention	2,68	1,45	189	0,65**	<b>0,91</b>										
3	Self-efficacy	2,97	1,28	184	0,54**	0,65**	<b>0,83</b>									
4	Perceived control	3,66	1,16	183	0,19**	0,32**	0,42**	<b>0,89</b>								
5	Subjective norm	2,60	1,26	187	0,47**	0,52**	0,49**	0,09	<b>0,90</b>							
6	Attitude	2,65	1,26	189	0,49**	0,65**	0,55**	0,20**	0,55**	<b>0,82</b>						
7	Technical exp.	0,57	0,50	190	-0,05	0,02	-0,03	0,04	-0,03	-0,09						
8	Entrepreneurial exp	15,29	12,43	190	0,18*	0,32**	0,39**	0,09	0,26**	0,23**	0,06	<b>0,82</b>				
9	PO	4,30	0,90	190	0,06	0,13	0,10	0,22**	0,06	0,05	0,07	0,21**	<b>0,92</b>			
10	EO	2,52	0,64	182	-0,01	-0,01	0,05	-0,11	0,19*	-0,02	0,01	-0,01	-0,07	<b>0,78</b>		
11	Intangible assets	3,62	1,01	185	-0,15	0,03	-0,06	0,09	0,01	-0,04	0,11	0,27**	0,15	0,21**	<b>0,83</b>	
12	Viability	3,10	0,80	189	0,33**	0,28**	0,18*	0,10	0,17	0,12	0,00	0,05	0,12	0,05	0,18	<b>0,76</b>

\* Significant correlations at the 0,05 level, \*\* significant correlations at the 0,01 level

Table 2: Multivariate analysis on intention? and corresponding bivariate results.

	Wilks Lambda	F-value	Sign
Intercept	.800	10.10	0.000
Control variables			
Age firm	.994	.243	.914
Generation firm	.991	.368	.831
Size firm	.998	.512	.727
Person-related variables			
PO	.948	2.208	.070
Technical exp.	.978	.894	.469
Entrepreneurial exp.	.905	4.247	.003**
EO	.904	4.315	.002**
Business-related variables			
Intangible assets	.929	3.109	.017*
Viability	.970	1.232	.299

	B-value	F	Sign
Attitude	-.001	.010	.921
Subjective norm	.019	3.840	.052
Self-efficacy	.034	15.157	.000
Perceived control	.004	.237	.627

	B-value	F	Sign
Attitude	-.265	4.082	.045
Subjective norm	.456	6.871	.010
Self-efficacy	.174	1.220	.271
Perceived control	-.209	1.658	.200

	B-value	F	Sign
Attitude	.050	.416	.520
Subjective norm	-.214	4.291	.040
Self-efficacy	-.249	7.061	.009
Perceived control	.062	.417	.519

<sup>a</sup> These represent bivariate analyses.

\* Significant correlations at the 0,05 level \*\* Significant correlations at the 0,01 level.



Table 3: Hierarchical logistic regression on occurrence of a transfer.

	Step 1				Step 2			
	Exp B	Wald	Sign	-2 LL	Exp B	Wald	Sign	-2 LL
Intercept	.007	9.213	.002		.008	5.035	.025	
<b>Control variables</b>								
Age firm	1.026	3.271	.071		1.010	.249	.618	
Generation firm	.956	.054	.817		.863	.321	.571	
Size firm	1.166	.886	.347		1.150	.333	.564	
Intention	/	/	/		2.883	19.856	.000**	
Self-efficacy	/	/	/		1.916	5.985	.014*	
Perceived control	/	/	/		.789	.749	.387	
<b>Independent variables</b>								
Person-related variables								
PO	1.026	.012	.912		.821	.434	.510	
Entrepreneurial Exp	1.028	2.261	.133		.998	.004	.948	
Technological Exp	1.054	.014	.907		1.735	.850	.357	
EO	1.484	1.196	.274		.925	.023	.880	
Business-related variables								
Intangible assets	-.470	16.57	.000**		.454	6.879	.009**	
Viability	3.600	19.87	.000**	193.077	3.057	10.795	.001**	125.717

\* Significant correlations at the 0,05 level \*\* Significant correlations at the 0,01 level.

Figure 1. The Theory of Planned Behavior.

